consistently create competitive advantages. That skill is particularly valuable when conditions are erratic, which most certainly describes the current situation.

Jan. 20, 2021

It's clear that 2020 has been one of the worst years in recent history for a variety of reasons, and the bad news is it won't all magically be fixed when the calendar flips to 2021. For accountants, this has caused an unparalleled level of uncertainty, particularly for financial forecasting and planning for the coming year — something that is relatively straightforward in a normal year.

Here is what I see as the biggest impact of the global pandemic and associated uncertainty on the 2021 financial planning process:

1. Uncertainty requires multiple scenarios. When planning, you generally start

of 2019; and a third that's somewhere in between, in which the impact of COVID-19 lasts until the middle of 2021 and then the rest of the year will be a hybrid of 2019 and 2020. It's not uncommon to model different scenarios, but companies typically select the one in which they have the most confidence by the end of the year and this becomes the next years' budget. This year, that approach doesn't make sense as we just don't know what will happen.

2. Financial-based incentive plans may be in flux. Many businesses tie incentive plans and compensation to hitting individual and company revenue targets, which ties many people's fate to the financial plan and forecast that is ultimately selected. In a down economy, such as the financial crisis of 2008 and 2009, the revenue impact was significant on a number of companies but most did not redo their incentive plans mid-year to adjust for the new situation — workers simply didn't get bonuses that year.

But we are not in an "economic downturn" in the traditional sense, because the root cause is the pandemic. It's something with which companies are going to have to grapple when they are deep into planning and evaluating compensation and incentives, particularly for their best performers. Incentives are a useful way to retain and motivate your top talent, but it will be a balancing act — you want to be realistic, but you also don't want to set targets so low that you end up with excessive payouts or so high that you demoralize people.

3. Similarly, complying with debt covenants could be a challenge in 2021. The pandemic has impacted debt covenants, which are conditions set forth within financial contracts (such as loans and bonds) in which the borrower is either obligated or forbidden to undertake a specific action that ensures the borrower operates their business in a way that leads to success.

Lenders in 2020 have for the most part been accommodating to businesses impacted

What are you going to do in 2021 for hiring and expansion? Will you be cautious and lock all non-discretionary spending? Will you plan for minor expansion or will you be bullish on your prospects during an anticipated recovery?

For businesses that did expand in 2019 or early 2020, do you maintain the extra headcount or let the new hires go? The situation makes decisions on resource planning and facility management a challenge. How are companies that are locked into leases going to reconcile such a huge expense for something that’s going largely unused?

In business, those who are able to read the room and adapt quickly are those who consistently create competitive advantages. That skill is particularly valuable when conditions are erratic, which most certainly describes the current situation. As we wind down the year and start to look toward 2021, the forecasting and planning process will prove more crucial than ever in helping organizations position themselves to pivot quickly as the year unfolds.

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Greg Vecellio is Controller at FloQast. Recognized as a 2020 Technology Fast 500 by Deloitte, FloQast is the leader in accounting workflow automation created by accountants for accountants to work smarter, not harder. The cloud-based, AI-enhanced software is trusted by more than 1,000 accounting teams, including those at Lyft, Twilio, Instacart, Zoom and The Golden State Warriors—and proud to be rated #1 across all user review sites. By automating common accounting workflows and helping to streamline and make them more efficient, FloQast is the place where accounting teams want to work so they can focus on what matters most, even when that’s just going home on time. Whether automating reconciliations, documentation requests or other workflows such as the month-end close, financial reporting or payroll, FloQast enhances the way accounting teams already work to help them

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